Alberta Capital Finance Authority

ACFA

ALBERTA CAPITAL FINANCE AUTHORITY

Annual Report 2011

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DIRECTORS

Board of Directors

Appointed	C.F. Barth	
	F.W. Clarke	
	L.R. Gordon	
	P. Whittaker	
	T. Wiles	
Elected	G. Huybregts	Representing Class B shareholders
	E.A. Gibbons	Representing Class C shareholders
	T. Thain	Representing Class D shareholders
	R. Ritter	Representing Class E shareholders
Audit Committee	C.F. Barth	Chair of the Audit Committee
	H.N. Johnsrude	Member
	T. Thain	Member
Officers	L.R. Gordon	Chair of the Board
	T. Thain	Vice-Chair of the Board
	T. Holinski	President and Treasurer
	L. Epp	Vice-President
	J. Hui	Corporate Secretary and Assistant Treasurer

ORGANIZATION

Mission

To provide local authorities within the Province of Alberta with flexible funding for capital projects at the lowest possible cost, consistent with the viability of the Alberta Capital Finance Authority (ACFA).

Authority

ACFA is a non-profit corporation established in 1956 under the authority of the *Alberta Capital Finance Authority Act*, Chapter A-14.5, Revised Statutes of Alberta 2000, as amended.

Shareholders

The authorized stock of ACFA consists of the following shares with a par value of $10 each:

- 4,500 Class A, available only to the Crown
- 1,000 Class B, available only to municipal authorities (includes improvement districts, Metis settlements, municipal districts, counties, special areas and specialized municipalities), regional authorities (includes drainage districts, irrigation districts, regional airport authorities and regional services commissions) and health authorities (includes a non-profit corporation who owns an approved hospital, a regional health authority and a provincial health board)
- 750 Class C, available only to cities
- 750 Class D, available only to towns and villages
- 500 Class E, available only to educational authorities (includes school districts and divisions, colleges, technical institutes, universities and Northland School Division)

The business of ACFA is administered by a Board of Directors. The Lieutenant Governor in Council appoints up to five directors to represent the Class A common shareholder. Each of the other four classes of shareholders elects one director to the Board.

Loans

Maximum terms of loans for various projects are prescribed in ACFA's resolution relating to the terms and conditions for lending money to shareholders.

Financing

ACFA issues various debt obligations to obtain the funds necessary to finance loan requirements. These obligations carry the unconditional guarantee of the Province of Alberta.

CHAIR'S REPORT

March 8, 2012

It is my pleasure and privilege to present the 55th Annual Report of the Alberta Capital Finance Authority (ACFA) for the year ended December 31, 2011 and to summarize its activities over the past year.

This past year has again been very busy, with new loans issued of nearly $1,876 million. The large issuance of new loans and maturing debt necessitated the borrowing of $6,343 million, which was used to fund new loans, repay short-term debt and refinance maturing long-term debt. Market dynamics also created significant volatility in the debt markets. Short-term money markets provided ACFA great opportunity to realize cost efficiencies due to a year of historically low short-term rates. Volatility in the markets, largely attributable to sovereign debt issues in Europe and domestic debt issues in the United States, limited the availability of structured medium to long term debt instruments. As of April 1, 2011, ACFA no longer borrows in its own name but instead borrows through the Province of Alberta. ACFA is saving approximately 8 to 12 basis points by having the Province borrow on its behalf and then on-lend to ACFA.

In 2011, ACFA transitioned to public sector accounting standards. As such, ACFA measures loans and debt on an amortized cost basis on its statements of financial position and continues to report derivatives in a favourable or unfavourable position at fair value. However, ACFA no longer reports unrealized changes in the fair value of loans and debt on its statements of operations and accumulated (deficit) surplus. Market volatility in 2011 produced sizeable changes in the fair value of derivatives alone. Unrealized changes in fair value of derivatives are recognized in the statements of operations and accumulated (deficit) surplus but, as ACFA holds its derivatives to maturity, it is very unlikely that these unrealized losses will ever materialize.

ACFA recorded a deficit (formerly referred to as net loss) in 2011 of -$667 million versus a deficit of -$114 million, as restated for 2010. The change in fair value of derivatives of -$701 million and -$149 million respectively is solely responsible for the deficit in each year. Income before changes in fair value of derivative contracts for ACFA was $34 million and $35 million for 2011 and 2010 respectively. Consequently, these deficits have resulted in an accumulated deficit (formerly referred to as retained earnings) at December 31, 2011 of -$705 million. From a capital management perspective, as discussed in Note 8 – Capital Management, the accumulated surplus (formerly retained earnings) for the year ending December 31, 2011 is $134 million.

The Board has seen membership changes in 2011 with a new government appointed director. Paul Whittaker replaces Ray Gilmour as the Deputy Minister appointee for Municipal Affairs. Ray was a long time board member and I would like to thank him for his contributions over the years. I would very much like to thank all the board members for their dedication and support of ACFA and its shareholders over the past year.

This past year saw changes to the management of ACFA. As you are aware, Terry Stroich is currently enjoying his new found retirement. Our new President, Troy Holinski, joined ACFA as of September 1, 2011. Troy brings with him a background in finance and banking. Troy worked for three years as an Executive Assistant to the Minister of Finance and the President of the Treasury Board. Prior to that, he spent eight years with a Canadian chartered bank in roles that included Commercial Account Manager and Branch Manager. Troy obtained his Master of Business Administration from McMaster University to complement his Bachelor of Commerce Degree (Finance) from the University of Alberta.

As always, it is a privilege and honour to serve as your Chair of the ACFA and to support its efforts to provide our shareholders with an efficient and effective organization for financing capital assets.

[Original signed by]

Lawrence R. Gordon

Chair

MANAGEMENT DISCUSSION AND ANALYSIS

The following provides management's analysis of the financial position and results of operations of the Alberta Capital Finance Authority (ACFA) for the year ended December 31, 2011.

Loans

During 2011, ACFA's loan portfolio increased from $9,525 million to $10,842 million, an increase of $1,317 million. New loans issued during the year totaled $1,876 million, a decrease of $272 million from new loans issued in 2010, and loan repayments totaled $559 million. In 2011, interest rates for most terms increased until April, and then steadily declined for the remainder of the year reducing by 1.00% to 1.25% overall by December 31, 2011. Included in this review is an Analysis of New Loans Issued in 2011 by jurisdiction and purpose, a Schedule of Loans Outstanding at December 31, 2011 and a Ten Year Loan Review 2002 – 2011.

Analysis of New Loans Issued

By jurisdiction and purpose as at December 31, 2011
(in thousands of dollars)

	Cities	Towns	Villages	Other	Total
Airport infrastructure	$ -	$ -	$ -	$ 603,000	$ 603,000
Sewer and water	251,513	13,526	1,841	33,514	300,394
Transit	226,100	-	-	-	226,100
Health	-	-	-	176,000	176,000
Electric, gas and telephone	151,616	2,500	-	-	154,116
Parks and recreation	117,567	11,234	300	10,215	139,316
Roads and sidewalks	80,644	3,986	1,500	1,666	87,796
Municipal buildings	34,740	10,557	-	5,784	51,081
Land	42,400	3,919	-	2,550	48,869
Equipment and machinery	29,952	400	-	4,014	34,366
Student residences and ancillary operation	-	-	-	34,416	34,416
Senior citizen lodges	-	-	-	19,067	19,067
Public housing	-	1,070	-	-	1,070
Landfill development	-	-	-	-	-
Schools	-	-	-	-	-
Total	**$ 934,532**	**$ 47,192**	**$ 3,641**	**$ 890,226**	**$ 1,875,591**

Schedule of Loans Outstanding

as at December 31, 2011
(in thousands of dollars)

	Principal Outstanding December 31, 2010	January 1 to December 31, 2011		Principal Outstanding December 31, 2011
		New Loans Issued	Principal Repaid	
By Jurisdiction				
Cities	$ 6,216,415	$ 934,531	$ 366,806	$ 6,784,140
Specialized municipalities	564,055	6,480	27,416	543,119
Towns	412,195	47,192	39,775	419,612
Villages	14,981	3,641	1,905	16,717
Counties	249,837	30,750	24,113	256,474
Municipal districts	40,146	5,952	6,615	39,483
Irrigation districts and regional services commissions	109,601	33,129	9,497	133,233
Metis settlements	-	500	-	500
Regional airport authorities	941,922	603,000	11,336	1,533,586
Health authorities	177,711	176,000	12,271	341,440
Colleges, technical institutes and universities	656,662	34,416	25,503	665,575
School districts and divisions	141,226	-	33,453	107,773
Total	**$ 9,524,751**	**$ 1,875,591**	**$ 558,690**	**$ 10,841,652**
By Purpose				
Municipal – general	$6,864,372	$908,059	$417,862	$7,354,569
Municipal – utility	736,969	154,116	54,455	836,630
ME *first!*	5,294	-	3,769	1,525
Airport infrastructure	942,266	603,000	11,347	1,533,919
Health – ancillary operation	177,711	176,000	12,271	341,440
Student residence, parkade and ancillary operation	656,662	34,416	25,503	665,575
School – core operation	141,477	-	33,483	107,994
Total	**$ 9,524,751**	**$ 1,875,591**	**$ 558,690**	**$ 10,841,652**

Ten Year Loan Review 2002 – 2011
(in thousands of dollars)

	2011	2010	2009
New Loans Issued During the Year			
By Jurisdiction			
Cities	$ 934,531	$ 1,252,567	$ 1,600,849
Specialized municipalities	6,480	206,332	46,201
Towns and villages	50,833	74,737	81,164
Counties, municipal and irrigation districts, regional services commissions and Metis settlements	70,331	104,018	80,657
Regional airport authorities	603,000	390,000	40,000
Health authorities	176,000	15,000	55,000
Colleges, technical institutes and universities	34,416	102,600	65,000
School districts and divisions	-	2,553	-
Total	**$ 1,875,591**	**$ 2,147,807**	**$ 1,968,871**
By Purpose			
Municipal	$ 1,062,175	$ 1,637,304	$ 1,808,871
ME *first*!	-	-	-
Airport infrastructure	603,000	390,350	40,000
Health – ancillary operation	176,000	15,000	55,000
Student residence, parkade and ancillary operation	34,416	102,600	65,000
School – core operation	-	2,553	-
Total	**$ 1,875,591**	**$ 2,147,807**	**$ 1,968,871**
Loans repaid during year	558,690	541,729	640,379
Loans outstanding at December 31	10,841,652	9,524,751	7,918,673
Debt issued during year	6,342,634	6,126,386	6,895,208
Debt repaid during year	5,041,780	4,526,162	5,596,477
Debt outstanding at December 31	10,798,646	9,497,846	7,899,846
Accumulated (deficit) surplus at December 31 (1)	(705,115)	(38,493)	75,512
Lending rate at December 31 *(based on 20-year term)*	3.145%	4.124%	4.395%

(1) Effective January 1, 2010, loans, debt and accumulated (deficit) surplus have been prepared in accordance with public sector accounting standards.

Previously, Canadian generally accepted accounting principles were used. 2002-2009 results have not been restated.

2008	2007	2006	2005	2004	2003	2002
$ 993,947	$ 878,623	$ 619,472	$ 355,350	$ 377,445	$ 379,647	$ 255,139
16,538	70,009	159,519	6,794	15,115	26,830	17,742
79,424	59,207	40,338	44,219	53,569	31,122	20,211
43,698	54,408	47,806	49,656	43,542	40,056	10,489
120,000	100,000	20,000	75,000	20,000	-	370,000
-	11,308	99,673	37,920	19,000	-	-
131,200	66,750	60,863	82,998	71,112	19,302	91,300
-	-	-	-	7,680	-	1,260
$ 1,384,807	**$ 1,240,305**	**$ 1,047,671**	**$ 651,937**	**$ 607,463**	**$ 496,957**	**$ 766,141**
$ 1,133,607	$ 1,048,329	$ 861,369	$ 446,841	$ 484,135	$ 477,655	$ 303,581
-	13,918	5,766	9,178	5,536	-	-
120,000	100,000	20,000	75,000	20,000	-	370,000
-	11,308	99,673	37,920	19,000	-	-
131,200	66,750	60,863	82,998	71,112	19,302	91,300
-	-	-	-	7,680	-	1,260
$ 1,384,807	**$ 1,240,305**	**$ 1,047,671**	**$ 651,937**	**$ 607,463**	**$ 496,957**	**$ 766,141**
432,514	505,056	446,349	500,825	397,916	410,372	418,565
6,590,181	5,637,888	4,902,639	4,301,317	4,150,205	3,940,658	3,854,073
2,624,881	1,551,905	1,178,396	972,000	714,500	3,137,000	2,280,000
1,701,278	835,987	570,396	832,604	475,491	2,930,523	1,929,735
6,610,928	5,678,476	4,963,963	4,355,963	4,216,567	3,977,558	3,771,081
(43,202)	81,826	15,674	11,673	12,664	22,406	26,676
5.150%	4.726%	4.365%	4.569%	4.923%	5.625%	5.875%

Results of Operations

ACFA's interest income on loans, including income from investments, exceeded interest expense on debt by $35 million, as the yield on the loans was slightly higher than the yield on the debt. Income before changes in fair value of derivative contracts was $34 million. The deficit, after recognition of unrealized changes in fair value of derivatives of -$701 million, was -$667 million.

As almost all loans, debt and derivatives are held to maturity, it is extremely unlikely that these unrealized changes in fair value will be realized, and therefore will be settled for their contractual value with no loss or gain to ACFA. Almost all of ACFA's financing in 2011 was done with floating rate notes, whose interest rates reset quarterly, and therefore do not require swaps to convert fixed rates to floating.

ACFA's goals are to provide local authorities with flexible funding at the lowest possible cost and to maintain the lowest administrative and new loan costs compared to other municipal borrowing authorities. Included below is a comparison of ACFA's 2011 costs with the most current available financial data of other provincial municipal borrowing authorities whose structure and operations are similar to ACFA.

Comparative Capital Finance Authorities' Statistics – 2011

	Alberta	British Columbia*	Nova Scotia
New loans to shareholders *($ millions)*	1,876	726	119
Total loans outstanding *($ millions)*	10,842	4,957	757
Administrative expense			
($ thousands)	952	3,225	465
($ per $ thousands of new loans)	.51	4.44	3.91
($ per $ thousands of total loans)	.09	.65	.61

*For British Columbia, fiscal 2010 financials are the most current available.

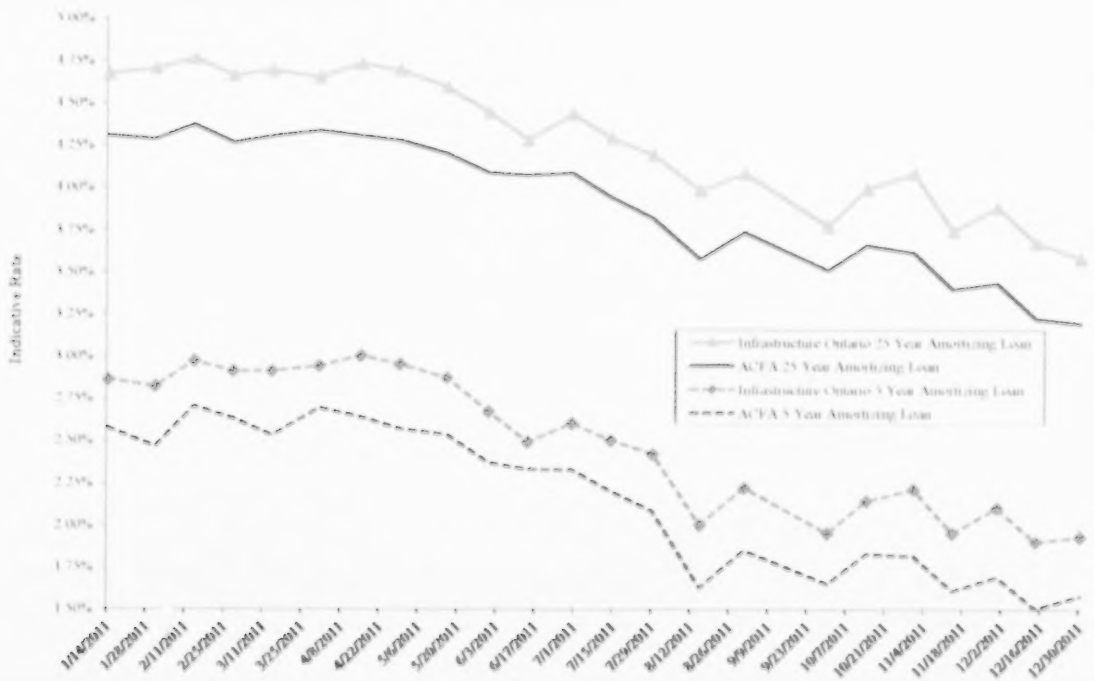
Interest Rates

ACFA provides fixed rate semi-annual pay amortizing loans to its borrowers. Loan rates are based on actual rates for the associated loan interest rate swaps executed to convert the loan to a floating rate to match the funding floating rate of the debt in order to reduce interest rate risk to ACFA. If a fixed rate debt instrument is used to fund the loan, then the loan rate will be based on the actual rate of the fixed rate instrument, and the loan and debt will both be swapped to floating rates. Interest income and expense streams associated with newly issued loans and debt become managed using floating rates.

Comparative Loan Spreads with Infrastructure Ontario

In order to compare ACFA's loan rates to those of Ontario municipal borrowers, rates of Infrastructure Ontario were reviewed and compared to the rates that ACFA would have offered. As noted below, ACFA's rates were consistently below Infrastructure Ontario's throughout the year. The spreads between ACFA's rates and those of Infrastructure Ontario's for 5 and 25 year rates at the beginning of the year was 29 and 37 basis points respectively. The spread between ACFA and Infrastructure Ontario increased slightly over the year for both 5 and 25 year rates ending the year at 35 and 39 basis points respectively.

5 and 25 Year Lending Rates



Debt

The debt of ACFA increased from $9,498 million to $10,799 million, an increase of $1,301 million. During the year, ACFA borrowed a total of $6,343 million consisting of $4,458 million in short-term notes, $1,860 million in floating rate notes and $25 million in mid-term debt for terms from two to twelve years. ACFA repaid a total of $5,042 million consisting of $3,958 million in short-term notes, $704 million in floating rate notes and $380 million in term fixed rate debt.

RISK MANAGEMENT

Effective risk management is essential to ensure a financially sound organization and includes identifying, assessing, managing and monitoring all forms of risk. ACFA is primarily exposed to:

- Market risk;
- Interest rate risk;
- Liquidity risk;
- Operational risk; and
- Credit risk.

The President of ACFA is responsible for identifying risks and recommending the appropriate policies and framework to mitigate risks. The Board of Directors reviews and approves the risk management policies and implements specific reporting procedures to enable them to monitor adherence to these policies.

Market Risk

Market risk is the impact on ACFA's surplus (deficit) from changes in market factors such as interest rates and foreign exchange. ACFA requires all borrowing be done in Canadian dollars or borrowing in foreign currency be swapped into Canadian dollars. Currently, all borrowings are denominated in Canadian dollars thus eliminating foreign exchange risk. Financial statement items that are impacted by changes in interest rates are interest income, interest expense and the changes in fair value of interest rate swaps. The primary source of interest rate risk is repricing risk, which arises when there is a mismatch between the maturity and repricing of interest bearing assets and the maturity and repricing of interest bearing liabilities. This repricing risk also results from ACFA's willingness to allow for some prepayments on existing loans.

The prepayment policy is structured to protect ACFA from significant losses that would occur in accepting additional prepayments of high interest rate loans and relending these funds at lower rates. ACFA, on three separate occasions, has reduced the rates on higher interest rate loans to 12%. ACFA does not have the ability to prepay or refinance its public debt and can only repay the Canada Pension Plan Investment Fund with a prepayment penalty based on current market rates which would not make it economically advantageous. ACFA's prepayment policy is an integral part of its long-term financial planning.

Interest Rate Risk

Interest rate risk is the potential impact of changes in interest rates on ACFA's net interest income when maturities of its interest rate sensitive assets are not matched with maturities of its interest rate sensitive debt.

ACFA mainly uses interest rate swaps for the purpose of managing its asset and liability position. ACFA's policy is to match the interest rate exposure on all new loans to the interest rate exposure of the debt used to fund these loans. In most cases, fixed interest rates on new loans and debt are swapped to floating rates so that the floating rates paid and received incorporate changes in the market rate at approximately the same time. In 2011, because of the spreads in the debt and swap markets, ACFA did most of its borrowing with floating rate and short-term notes, reducing the need for interest rate swaps. As markets normalize in the future ACFA will return to its previous activities.

Although the cost of swapping fixed rate debt to floating rate has decreased over the year, comparing these swap levels to borrowing in the floating rate market made it advantageous to continue to borrow in this market.

The Board recognizes the unique risks associated with the use of derivative financial instruments and has established policies and procedures to monitor and minimize exposure to ACFA. These policies and procedures limit the type of derivative financial instruments and circumstances where they can be used, the authorities required to approve the transaction and the appropriate segregation of duties to reduce operational risk.

Liquidity Risk

Liquidity risk is the risk that ACFA will not have sufficient cash to meet its obligations as they become due while meeting the loan requirements of local authorities.

ACFA manages its liquidity risk by monitoring its cash flows on a daily basis and providing updated cash flow reports to the Board regularly. Surplus funds are invested short-term in the Consolidated Cash Investment Trust Fund. When required, ACFA works with the Province to obtain funding in the Canadian market. As of April 2011, the debt is borrowed directly by the Province, who in turn on-lends to ACFA. As such, all borrowing is guaranteed by the Province of Alberta.

ACFA recognizes that because of its short-term borrowing activities in the past four years, made advantageous by spreads in the debt and swap markets, it must extend its duration of debt by reducing its activity in the short-term and floating rate markets and borrowing in the long-term market. ACFA contracted an external risk management firm to provide a risk analysis report to assist ACFA in identifying inherent risks and appropriate benchmarks. The Board and management will consider the report in its risk management review during the Board's next planning session.

Operational Risk

Operational risk is the risk associated with a breakdown in internal controls, systems or procedural failures, human errors or malfeasance. These risks can never be fully eliminated but are minimized by establishing appropriate policies and sound internal controls through an appropriate segregation of duties, accountabilities and reporting practices.

The audit of the financial statements was made in accordance with Canadian generally accepted auditing standards and in completion of the audit, the auditor considers internal controls relevant to ACFA's preparation and presentation of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The objective of a financial statement audit is to obtain reasonable assurance whether the financial statements are free of material misstatement. Accordingly, an audit would not usually identify all matters that may be of interest to management and the Audit Committee, however any significant weaknesses identified in internal controls over financial reporting, or other non-trivial matters, are communicated to management and the Audit Committee.

Credit Risk

Credit risk is the risk of loss due to a borrower or counterparty failing to meet their obligations to ACFA. Historically, ACFA has not been required to record any provisions or allowances regarding credit losses nor has it suffered any such losses. The Board has established policies which provide for the approval and monitoring of all lending activity. These policies include establishing clear lines of authority for decision making and for accountability.

Credit risk on counterparty default arises with the use of derivatives. To control this risk, ACFA uses counterparty limits established for the Province and uses only counterparties believed to have a good credit standing (A+ or greater). ACFA is not exposed to credit risk for the full face value (notional amount) of the derivative contracts, but only to the potential replacement cost if the counterparties fail. Under Credit Support Annexes entered into under the Province of Alberta's derivative master agreement, counterparties or ACFA is obligated to provide collateral based on established thresholds which further enhances ACFA's credit position. This exposure is represented by the current replacement cost of all outstanding contracts in a favourable position. For additional information, see Note 6 – Derivative Financial Instruments in the financial statements.

FINANCIAL REPORTING RESPONSIBILITY OF MANAGEMENT

Management of the Alberta Capital Finance Authority prepared these financial statements and is responsible for their reliability, completeness and integrity. They conform in all material respects to Canadian public sector accounting standards and the requirements of the *Alberta Capital Finance Authority Act*.

Management maintains the necessary accounting and internal control systems designed to ensure the timely production of reliable and accurate financial information, the protection of assets (to a reasonable extent) against loss or unauthorized use and the promotion of operational efficiency. The Audit Committee oversees management's responsibilities for financial reporting, and internal control systems over financial reporting controls, and recommends approval of the financial statements and annual report to the Board of Directors.

The Auditor General of Alberta is designated as the external auditor in the *Alberta Capital Finance Authority Act*. The Audit Committee reviewed these financial statements with the external auditor in detail before recommending their approval to the Board of Directors. The Board then approves the financial statements.

[Original signed by Troy Holinski, MBA]

President

March 8, 2012
Edmonton, Alberta

INDEPENDENT AUDITOR'S REPORT

AUDITOR GENERAL *Alberta*

To the Shareholders of the Alberta Capital Finance Authority

Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Capital Finance Authority, which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the statements of operations and accumulated (deficit) surplus and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Capital Finance Authority as at December 31, 2011, December 31, 2010 and January 1, 2010, and the results of its operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with Canadian public sector accounting standards.

[Original signed by Merwan E. Saher, FCA]

Auditor General

March 8, 2012
Edmonton, Alberta

STATEMENTS OF FINANCIAL POSITION

as at December 31, 2011, December 31, 2010 and January 1, 2010
(in thousands of dollars)

	2011	2010	January 1, 2010
		(See Note 2)	
Assets:			
Cash	$ 40,027	$ 30,881	$ 13,438
Accounts receivable	4	2	23
Accrued interest receivable	104,924	97,436	94,738
Loans to local authorities (Note 4)	10,841,652	9,524,751	7,918,673
Derivatives in favourable position (Note 6)	514,742	316,145	248,935
	$ 11,501,349	$ 9,969,215	$ 8,275,807
Liabilities:			
Accounts payable	$ 733	$ 655	$ 672
Accrued interest payable	29,418	45,274	50,045
Debt (Note 5)	10,786,470	9,485,085	7,889,102
Derivatives in unfavourable position (Note 6)	1,389,779	476,630	260,412
	12,206,400	10,007,644	8,200,231
Commitments (Note 11)			
Accumulated (Deficit) Surplus:			
Share capital (Note 7)			
Issued and fully paid:			
6,350 shares (2010 – 6,346 shares; January 1, 2010 – 6,345 shares)	64	64	64
Accumulated (deficit) surplus (Note 8):			
Accumulated surplus before changes in fair value of derivatives	134,293	100,076	65,357
Accumulated changes in fair value of derivatives	(839,408)	(138,569)	10,155
Accumulated (deficit) surplus	(705,115)	(38,493)	75,512
	(705,051)	(38,429)	75,576
	$ 11,501,349	$ 9,969,215	$ 8,275,807

The accompanying notes and schedule are part of these financial statements.

These financial statements were approved by the Board of Directors.

Lawrence R. Gordon
Chair of the Board

Troy Holinski
President

STATEMENTS OF OPERATIONS AND ACCUMULATED (DEFICIT) SURPLUS

for the years ended December 31
(in thousands of dollars)

	Budget	2011	2010
	(Note 12)	*(See Note 2)*	
Interest Income:			
Loans	$ 445,989	$ 467,927	$ 420,256
Loan swaps (pay fixed receive floating)	(204,892)	(225,304)	(224,832)
Investments (Note 3(b))	600	521	622
	241,697	243,144	196,046
Interest Expense:			
Debt	302,816	288,870	255,385
Debt swaps (receive fixed pay floating)	(89,241)	(88,927)	(102,324)
Commission fees	12,600	-	-
Amortization of commission fees	-	2,459	2,152
Amortization of net discounts on debt	1,326	6,086	5,364
	227,501	208,488	160,577
Net interest income	14,196	34,656	35,469
Other Income:			
Loan prepayment fees	-	513	123
Net interest income and other income	14,196	35,169	35,592
Non-Interest Expense:			
Administration and office expenses (Note 9)	1,359	952	873
Income before change in fair value of derivative contracts	12,837	34,217	34,719
Unrealized change in fair value of derivative contracts	-	(700,839)	(148,724)
(Deficit) surplus	12,837	(666,622)	(114,005)
Accumulated (deficit) surplus, beginning of year	88,000	(38,493)	75,512
Accumulated (deficit) surplus, end of year	$ 100,837	$ (705,115)	$ (38,493)

STATEMENTS OF CASH FLOW

for the years ended December 31
(in thousands of dollars)

	2011	2010 *(See Note 2)*
Operating Activities:		
Interest received		
Loans	$ 460,437	$ 417,579
Investments	521	622
Debt swaps (receive fixed pay floating)	95,861	106,321
Loan prepayment fees	513	123
Administration and office expenses	(867)	(877)
Commission fees	(594)	(2,919)
Interest paid		
Debt	(304,733)	(260,169)
Net (discounts) premiums paid at debt maturity	(7,420)	(8,838)
Loan swaps (pay fixed receive floating)	(218,225)	(228,545)
Cash flows from operating activities	25,193	23,297
Investing Activities:		
Loan repayments	558,690	541,729
New loan issues	(1,875,591)	(2,147,807)
Cash flows used in investing activities	(1,316,901)	(1,606,078)
Financing Activities:		
Debt issues	6,342,634	6,126,386
Debt redemptions	(5,041,780)	(4,526,162)
Cash flows from financing activities	1,300,854	1,600,224
Net increase in cash	9,146	17,443
Cash, beginning of year	30,881	13,438
Cash, end of year	$ 40,027	$ 30,881

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011, December 31, 2010 and January 1, 2010
(in thousands of dollars, except share amounts)

Note 1 – Authority

The Alberta Capital Finance Authority (ACFA) operates under the authority of the *Alberta Capital Finance Authority Act*, Chapter A-14.5, Revised Statutes of Alberta 2000, as amended. Under the Act, ACFA is restricted to making loans only to its shareholders.

Note 2 – First-time Adoption of Public Sector Accounting Standards and Changes in Accounting Policies

In 2011, ACFA became a first-time adopter of Canadian public sector accounting standards, which are now used as ACFA's basis of accounting and financial statements reporting. The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) issues public sector accounting standards.

In accordance with *PS 2125 – First-time Adoption by Government Organizations* (PS 2125) the date of transition to the new standards is January 1, 2010 and ACFA has prepared and presented an opening statement of financial position at the date of transition to the new standards. This opening statement of financial position is the starting point for the entity's accounting under the new standards. In its opening statement of financial position, under the recommendations of PS 2125, ACFA:

(a) Recognized all assets and liabilities whose recognition is required by the new standards;

(b) Did not recognize items as assets or liabilities if the new standards do not permit such recognition;

(c) Reclassified items that it recognized previously as one type of asset, liability or component of equity, but are recognized as a different type of asset, liability or component of equity under the new standards; and

(d) Applied the new standards in measuring all recognized assets and liabilities.

In accordance with the requirements of PS 2125, the accounting policies set out in Note 3 have been consistently applied to all years presented and adjustments resulting from the adoption of the new standards have been applied retrospectively excluding cases where optional exemptions available under PS 2125 have been applied. ACFA did not elect to use any of the exemptions permitted in PS 2125.

Prior to the adoption of public sector accounting standards, ACFA accounted for all of its financial instruments, including loans, debt and derivative contracts, at fair value in accordance with CICA accounting standards 3855 – Financial Instruments – Recognition and Measurement and 1530 – Comprehensive Income. Unrealized gains and losses on loans, debt and derivatives were included in net income and comprehensive income.

The impacts of the adoption of the new standards on the opening statement of financial position and retained earnings as at January 1, 2010 and on net income (loss) for the year ended December 31, 2010 are as follows:

(a) Loans to local authorities and debt are to be carried at amortized cost rather than fair value. The adjustment to the January 1, 2010 statement of financial position represents the difference between the fair value and the amortized cost of the loans to local authorities and debt at January 1, 2010. In addition, accrued interest receivable and payable that was previously included in the fair value of the loans to local authorities and debt have been reclassified and reported separately on the statements of financial position.

(b) The category called comprehensive income is no longer required.

(c) Under the new standards, transaction costs like commission fees, as well as discounts or premiums, are added to the carrying value of loans to local authorities and debt, and are amortized over the term to maturity of the respective financial instruments. Prior to the adoption of the new standards, transaction costs were expensed. Discounts and premiums were expensed on debt maturing within a year; otherwise they were factored in the fair value calculation of the respective financial instrument.

On the statement of operations for 2010, the net change of $1,154 is comprised of commission fees of $2,919 that were previously expensed net of $2,152 that is now being deferred and amortized, as well as amortization of debt premiums of $387.

(d) The operating and financing activities in the statements of cash flows for the year ended December 31, 2010 have been decreased and increased, respectively by $3,087, due to the reclassification of certain cash amounts paid or received in respect of premiums and discounts on debt.

The following table summarizes the above changes in ACFA's opening statement of financial position and accumulated surplus as at January 1, 2010 and its net income (loss) for the year ended December 31, 2010 related to the first-time adoption of public sector accounting standards.

	Opening Statement of Financial Position January 1, 2010			
	Previously Reported	Restated	Transition Adjustment	
Assets:				
Cash	$ 13,438	$ 13,438	$ -	
Accounts receivable	-	23	23	
Accrued interest receivable	-	94,738	94,738	(a)
Loans to local authorities	8,347,277	7,918,673	(428,604)	(a)
Derivatives in favourable position	248,935	248,935	-	
	$ 8,609,650	$ 8,275,807	$ (333,843)	
Liabilities:				
Accounts payable	$ 672	$ 672	$ -	
Accrued interest payable	-	50,045	(50,045)	(a)
Debt	8,177,483	7,889,102	288,381	(a)
Derivatives in unfavourable position	260,412	260,412	-	
	$ 8,438,567	$ 8,200,231	$ 238,336	
Cumulative impact of adopting Canadian public sector accounting standards			(95,507)	
Retained earnings, as previously reported			171,019	
Accumulated surplus, restated			$ 75,512	
Reconciliation of Net Income (Loss):			2010	
Net income and comprehensive income, as previously reported			$ 123,726	(b)
Less: Difference between fair value and amortized cost on loans and debt			(238,885)	(a)
Add: Net change from direct expense to amortization of transaction costs and discounts (premiums)			1,154	(c)
Net (loss), as restated			$ (114,005)	(b)

Future Changes in Accounting Policies and Reporting Practices

In June 2011, the Public Sector Accounting Board issued a new accounting standard *PS 3450 – Financial Instruments* (PS 3450). It is effective for government organizations for fiscal years beginning on or after April 1, 2012. Earlier adoption is permitted. PS 3450 is to be applied prospectively without restatement of prior years. In the fiscal year ACFA adopts PS 3450, it must also adopt *PS 2601 – Foreign Currency Translation* and *PS 1201 – Financial Statement Presentation*. The primary change of PS 3450 is that changes in the fair value of derivative contracts would not be included in income on the statements of operations but would be included in a new statement of remeasurement gains and losses. Management is in the process of assessing the impact of adopting PS 3450 and whether to early adopt it for the fiscal year ending December 31, 2012 rather than December 31, 2013.

Note 3 – Significant Accounting Policies and Reporting Practices

As described in Note 2, these financial statements are prepared in accordance with Canadian public sector accounting standards as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Significant accounting policies are as follows:

(a) Measurement Uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates. Measurement uncertainty exists in the collectability of the loans to local authorities and the estimate of fair value of derivative contracts.

(b) Cash

Cash includes cash on hand, demand deposits and cash equivalents, which are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. Short-term investments have a maturity of three months or less at acquisition and are held for the purpose of meeting short-term cash commitments rather than for investing. ACFA's cash is on demand deposit with the Province of Alberta in the Consolidated Cash Investment Trust Fund (CCITF) whose investments include primarily short-term and mid-term interest bearing securities which have a maximum term to maturity of less than three years. For the year ended December 31, 2011, deposits in CCITF had a time-weighted return of 1.26% per annum (December 31, 2010 – 0.84% per annum).

(c) Loans to Local Authorities

The carrying value of loans is recorded at amortized cost. Accrued interest receivable on loans is reported separately from the carrying value on the statements of financial position. Loan discounts are amortized to income over the term of the loan using the effective interest method, and are included in the carrying value.

Impairment losses are recognized in the statements of operations. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest on a loan, a specific provision for credit loss is made and the carrying value of the loan is reduced to its estimated net recoverable value.

Interest revenue is recognized on loans when earned. Interest revenue ceases to be accrued on loans when the collectibility of either principal or interest is not reasonably assured.

(d) Debt

The carrying value of debt, including transaction costs, is recorded at cost or amortized cost. Accrued interest payable on debt is reported separately from the carrying value on the statements of financial position. Debt premiums and discounts, including underwriting commissions, arising from the issue of debt are deferred and amortized over the term of the debt using the effective interest method, and are included in the carrying value.

Interest expense on debt is recorded on an accrual basis.

(e) Derivative Contracts

Derivative contracts for interest rate swaps are recorded at fair value on the statements of financial position and changes in fair value are recorded as unrealized gains and losses in the statements of operations. When a financial instrument is derecognized, a gain or loss is recognized in the statements of operations. Any transaction costs are expensed.

Fair value is the only relevant basis for measurement of derivative contracts because the historical cost is at most nominal. The fair value depicts the market's assessment of the present value of the net future cash flows directly or indirectly embodied in a derivative contract discounted to reflect both current interest rates and the market's assessment of the risk that the cash flows will not occur. Fair values are determined using models based on third party valuation software which takes into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions.

Fair values have been segregated between those contracts which are in a favourable position (positive fair value) and those contracts which are in an unfavourable position (negative fair value) and are recorded as derivative assets and derivative liabilities respectively on the statements of financial position.

Net interest paid or received on the pay fixed receive floating interest rate swaps related to loans is presented separately as part of interest income, and the net interest paid or received on the receive fixed pay floating interest rate swaps related to debt is presented separately as part of interest expense. Loan swap interest revenue and debt swap interest expense includes accrued interest.

(f) Transaction Costs

Transaction costs include fees and commissions paid to agents, advisors and brokers. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. Transaction costs paid, net discounts or premiums paid at debt redemption and interest paid are presented in the statements of cash flows as operating activities.

Note 4 – Loans to Local Authorities

	December 31, 2011	December 31, 2010	January 1, 2010
Amortized cost	$ 10,841,652	$ 9,524,751	$ 7,918,673

Credit risk is the risk of loss due to borrowers failing to meet their obligations to ACFA. Historically, ACFA has not needed to record any provisions or allowances regarding credit losses nor has it suffered any such losses. ACFA has established policies which provide for the approval and monitoring of all lending activity. These policies include establishing clear lines of authority for decision making and for accountability.

ACFA maintains a loan portfolio that consists of several different borrower categories, each with their own source of security to ensure repayment. The major categories of borrowers are as follows:

(a) Cities, towns, villages, specialized municipalities, counties, municipal districts, irrigation districts, regional services commissions and Metis settlements account for nearly 75% (December 31, 2010 – 80%; January 1, 2010 – 81%) of all loan assets held by ACFA. This borrower category is regulated by the *Municipal Government Act* that stipulates specific debt limits and debt servicing limits. The aforementioned group of borrowers is required to agree to raise and levy taxes and or fees in an amount sufficient to pay their indebtedness to ACFA as per the signed lending agreement.

(b) Regional airport authorities account for 10% (December 31, 2010 – 10%; January 1, 2010 – 7%) of all loans assets held by ACFA. This borrower category utilizes Airport Improvement Fees (AIF) to ensure repayment of existing loans. Security is also taken in the form of adequate land registration.

(c) Educational and health authorities account for the remaining 15% (December 31, 2010 – 10%; January 1, 2010 – 12%) of loan assets, each with terms and conditions specific to their respective loan agreements.

As at and for the year ended December 31, 2011, all loans were performing in accordance with related terms and conditions and none were in arrears, nor were any loans considered impaired. Additional detail on the contractual pricing and effective interest rates of outstanding loans is provided in Note 11(b).

Note 5 – Debt

	December 31, 2011	December 31, 2010	January 1, 2010
		(See Note 2)	
Contractual principal	$ 10,798,646	$ 9,497,846	$ 7,899,846
Unamortized net discounts	(4,659)	(3,379)	(2,129)
Unamortized commission fees	(7,517)	(9,382)	(8,615)
Amortized cost	$ 10,786,470	$ 9,485,085	$ 7,889,102

The debt of ACFA is fully guaranteed by the Province of Alberta. Since April, 2011 all ACFA debt is borrowed by the Province. The Province then on-lends the money to ACFA for loan disbursement and cash management.

Debt with contractual principal of $61,000 (December 31, 2010 – $166,000; January 1, 2010 – $165,000) is comprised of a combination of various issues of step-up notes whereby ACFA has the option of extending or calling the debt, at predetermined extension or call dates. In the event that ACFA exercises its option to call or not extend the debt at the predetermined extension or call dates, the debt is redeemed at the contractual principal amount with no gain or loss to ACFA. In the event ACFA does not exercise its option to call or redeem the debt at the predetermined extension or call dates, the contractual principal amount is due at the final maturity date (Schedule 1).

For the next five years contractual debt redemption requirements, with the assumption that the step-up notes are redeemed at the first extendible date and all other debt at the maturity date, are as follows:

	Debt Redemption
2012	$ 2,686,000
2013	2,905,000
2014	671,500
2015	800,000
2016	1,500,000
	8,562,500
Thereafter	2,236,146
	$ 10,798,646

Note 6 – Derivative Financial Instruments

A derivative is a financial contract with the following characteristics: its value changes in response to the change in a specified interest rate, equity index price, foreign exchange rate or credit rating; it requires no initial net investment or the initial investment is smaller than required for exposure to a similar investment market; and it is settled in the future.

To minimize its interest rate risk on loans and debt issued after January 1, 2004, interest rate swaps are used to swap fixed rate interest on loans and debt to floating rate so that floating rates paid and received incorporate changes in the market rates at approximately the same time.

The notional amounts of interest rate swaps represent the amount to which the fixed and floating rates are applied in order to calculate the exchange of cash flows. The notional amounts are not recorded in the statements of financial position. They represent the volume of outstanding transactions and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments. It is not ACFA's normal course of business to terminate swaps before maturity and realize gains or losses. Swaps are intended to be held to maturity to reduce interest risk.

Interest rate swaps with a notional value of $61,000 (December 31, 2010 – $166,000; January 1, 2010 – $165,000) related to the step-up notes have the option which allows the counterparty to extend or call the swap at predetermined extension or call dates. If the counterparty exercises their option to call or redeem the interest rate swap at the predetermined extension or call date, ACFA will in turn exercise its option to call or redeem the corresponding debt instrument and there will be no gain or loss to ACFA.

The notional amounts of interest rate swaps by maturity date are summarized as follows:

Maturities	Within 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	Over 10 Years	Total
Interest rate swaps, December 31, 2011	$ 88,173	$ 31,038	$ 1,803,057	$ 1,668,868	$ 8,294,577	$ 11,885,713
Interest rate swaps, December 31, 2010	$ 63,074	$ 105,430	$ 1,054,489	$ 2,161,883	$ 7,160,721	$ 10,545,597
Interest rate swaps, January 1, 2010	$ 80,435	$ 79,627	$ 513,461	$ 2,134,207	$ 6,022,923	$ 8,830,653

The notional amounts of the interest rate swaps related to the step-up notes have been included in the above table based on their maturity date.

The cost of replacing the remaining cash flows of the interest rate swaps at the prevailing prices and market rates are summarized as follows:

	Notional Outstanding	Net Fair Value	Current Replacement Cost	
			Contracts in Favourable Position	Contracts in Unfavourable Position
Interest rate swaps, December 31, 2011	$ 11,885,713	$ (875,037)	$ 514,742	$ (1,389,779)
Interest rate swaps, December 31, 2010	$ 10,545,597	$ (160,485)	$ 316,145	$ (476,630)
Interest rate swaps, January 1, 2010	$ 8,830,653	$ (11,477)	$ 248,935	$ (260,412)

At December 31st, derivatives in a favourable and unfavourable position, as reported on the statements of financial position, include contractual amounts of accrued interest receivable and payable, respectively, as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Accrued interest receivable on debt swaps	$ 5,447	$ 12,081	$ 16,078
Accrued interest payable on loan swaps	$ 41,076	$ 33,997	$ 37,710

The fair value of interest rate swaps has been calculated using valuation methodologies that take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions. The determination of fair value also considers the impact of the counterparty's credit worthiness on the fair value of derivatives. As at the statements of financial position date, the estimated sensitivity of the fair value of derivatives in a favourable or unfavourable position to a change in the market rate of one (1) basis point is $2,212 and $9,120 respectively (December 31, 2010 – $1,191 and $5,504 respectively; January 1, 2010 – $541 and $3,078 respectively).

Current credit exposure is limited to the amount of loss that ACFA would suffer if every counterparty to which ACFA was exposed were to default at once and is represented by the current replacement cost of all outstanding contracts in a favourable position. ACFA is part of the exposure limit established for the Province of Alberta and actively monitors its exposure and minimizes credit risk by only dealing with counterparties believed to have a good credit standing (A+ or greater).

Under the Province of Alberta's master agreement with counterparties, ACFA can in the event of a counterparty default, net its favourable and unfavourable positions with a counterparty. In addition, under the agreement, one Credit Support Annex (CSA) has been signed with a counterparty which will require ACFA or the counterparty to provide collateral based on established thresholds which further enhance ACFA's credit position. The year ended December 31, 2011 marked the first year that the Province, and subsequently ACFA, was required to post collateral. During the year ended December 31, 2011, ACFA was required to post cash collateral on multiple occasions. The maximum amount of collateral outstanding at any given time was $9,100 (December 31, 2010 – Nil; January 1, 2010 – Nil). As of December 31, 2011, there were no amounts posted as collateral.

Derivative assets and liabilities are presented gross on the statements of financial position. Although the amounts do not qualify for offset, derivative instruments in a favourable position of $473,208 at December 31, 2011 (December 31, 2010 – $296,053; January 1, 2010 – $203,112) are subject to master netting arrangements which reduces ACFA's credit exposure by an equivalent amount.

Note 7 – Share Capital

Share capital is valued at $10 per share. Voting rights, as established in legislation, relate only to the election of a director representing the shareholders' class. Further particulars of share capital are as follows:

Class	Restricted to	Number of Shares Authorized	Number of Shares Issued and Fully Paid	Total Dollar Amount
A	Province of Alberta	4,500	4,500	$ 45,000
B	Municipal, airport and health authorities	1,000	895	8,950
C	Cities	750	588	5,880
D	Towns and villages	750	284	2,840
E	Educational authorities	500	83	830
December 31, 2011		7,500	6,350	$ 63,500
December 31, 2010		7,500	6,346	$ 63,460
January 1, 2010		7,500	6,345	$ 63,450

During the year five Class B (December 31, 2010 – seven Class B and three Class C) shares were issued and one Class D (December 31, 2010 – nine Class D) share was cancelled.

Note 8 – Capital Management

ACFA is an agent of the Province of Alberta and a crown corporation whose debt is fully guaranteed by the Province of Alberta. Both allow ACFA access to capital markets to obtain low cost debt financing.

The business of ACFA is to provide its shareholders with flexible financing for capital projects and to manage its assets and liabilities and business affairs in such a manner so as to enhance its ability to effectively carry out its activities in an economical and effective manner.

ACFA's objective when managing capital is to safeguard its ability to continue as a going concern, to continue to benefit it shareholders by providing loans at the lowest possible cost and operate on a breakeven basis while maintaining positive equity. Net assets for capital management purposes is defined as accumulated surplus excluding cumulative changes in the fair value of derivatives. ACFA has operated effectively in accordance with its capital objective as net assets for capital management purposes for the year end was $134,293 (December 31, 2010 – $100,076; January 1, 2010 – $65,357). Capital management objectives, policies and procedures are unchanged since the preceding year.

As almost all loans, debt and interest rate swaps are held to maturity or to the earliest call date and operate in accordance with the terms of the contract, no gains and losses are expected to be realized over the lives of these financial instruments. In its normal course of business, ACFA would not see these gains or losses realized. As such, ACFA's net assets for capital management purposes is comprised of the following:

	December 31, 2011	December 31, 2010	January 1, 2010
Net Assets for Capital Management Purposes:			
Accumulated (deficit) surplus, end of year	$ (705,115)	$ (38,493)	$ 75,512
Less: Cumulative changes in fair value of derivatives in closing accumulated (deficit) surplus	(839,408)	(138,569)	10,155
Net assets for capital management purposes	$ 134,293	$ 100,076	$ 65,357

Note 9 – Directors' and Audit Committee Fees and Related Party Transactions

Directors' and Audit Committee fees paid by ACFA are as follows:

	2011		2010	
	Number of Individuals	Total	Number of Individuals	Total
Board/Audit Committee Chairs	2	$ 17	2	$ 11
Board/Audit Committee Members	6	$ 35	7	$ 28

There are two additional board members who are employees of the Province of Alberta and do not receive compensation from ACFA.

ACFA has advanced loans to local authorities under the ME*first!* Municipal Energy Efficiency Assistance Program (the "Program") on behalf of Alberta Municipal Affairs and Alberta Environment. Under the Program, principal was advanced to qualifying municipalities by ACFA and repayments of principal are made by the municipality; however, the interest is paid by the Province of Alberta. The Program has been discontinued but the loans will continue until they are paid out. Included in the balance of loans to local authorities at December 31, 2011 is principal of $1,525 (December 31, 2010 – $5,294; January 1, 2010 – $10,511), upon which interest of $132 (2010 – $315) has been recorded in interest income from loans.

ACFA has no employees. Its operations are managed by dedicated staff of Alberta Finance. Included in administration and office expenses of $952 (2010 – $873) is the amount of $574 (2010 – $451) that was paid to the controlling shareholder, the Province of Alberta, for services at prices measured at the exchange amount, which approximate market.

Note 10 – Financial Risk Management

In accordance with ACFA's Derivative Policy, ACFA manages its interest rate risk by matching its debt maturity profile to the forecast cash flows and their effect on ACFA's equity. For most loans made after January 1, 2004, ACFA uses: loan interest rate swaps to swap fixed rate loan interest to floating; floating rate notes which reprice at approximately the same time as the loans; debt interest rate swaps to swap fixed rate debt interest to floating; and forward rate agreements to minimize the exposure related to the mismatch of reset dates on the loan and debt swaps.

ACFA's management is responsible for monitoring performance and reporting to the Board of Directors and recommending changes to the Derivative Policy. The Board of Directors is responsible for governance and strategic direction through its annual review and approval of the policy.

(a) Credit Risk

Credit risk is related to the possibility that the borrower or the counterparty to a financial instrument cannot fulfill its contractual obligation to ACFA.

Credit risk from borrowers is fully explained in Note 4 and ACFA does not believe that it has any credit exposure on loans.

Credit exposure with derivative counterparties is further explained in Note 6.

(b) Interest Rate Risk

Interest rate risk refers to the potential impact of changes in interest rates on ACFA's earnings when maturities of its interest rate sensitive assets are not matched with the maturities of its interest rate sensitive debt. Interest received on loans to local authorities at fixed rates is swapped so that interest is received at floating rates instead. Loan swaps involve the receipt of floating rate cash flows from the counterparty in exchange for the payment of fixed rate cash flows to the counterparty. Interest paid on debt at fixed rates is swapped so that interest is paid at floating rates instead. Debt swaps involve the payment of floating rate cash flows to the counterparty in exchange for the receipt of fixed rate cash flows from the counterparty.

The following table summarizes the contractual principal amounts of ACFA's interest sensitive assets and liabilities, with the assumption that the step-up notes are redeemed at the first extendible date and all other debt at the maturity date, based on the earlier of repricing or principal repayments:

		As at December 31st						
Maturities		Within 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	Over 10 Years	2011 Total	2010 Total
Assets								
Cash		$ 40,027	$ -	$ -	$ -	$ -	$ 40,027	$ 30,881
Accrued interest receivable on loans to local authorities		104,924					104,924	97,436
Accrued interest receivable on debt swaps		8,447					8,447	12,081
Loans to local authorities		538,892	880,787	2,418,031	2,409,522	4,924,420	10,841,652	9,524,751
Effective rate		4.6%	4.6%	4.7%	4.7%	4.8%	4.7%	4.9%
Total		$ 689,290	$ 880,787	$ 2,418,031	$ 2,409,522	$ 4,924,420	$ 10,992,050	$ 9,665,149
Liabilities								
Accrued interest payable on debt		$ 29,418	$ -	$ -	$ -	$ -	$ 29,418	$ 48,274
Accrued interest payable on loan swaps		41,076					41,076	33,993
Debt	(a)	6,741,000	880,000	1,521,500	1,022,367	1,213,779	10,798,646	9,497,846
Effective rate		4.8%	4.7%	5.0%	5.4%	5.5%	4.9%	5.0%
Total		$ 6,811,494	$ 880,000	$ 1,521,500	$ 1,022,367	$ 1,213,779	$ 10,869,140	$ 9,577,117

(a) Includes various floating rate notes in the aggregate amount of $5,055,000 (2010 – $3,899,200) with rates of Canadian Deposit Offered Rate plus predetermined spreads.

Interest rate swaps of pay fixed receive floating for loans and receive fixed pay floating for debt in the notional amounts of $9,094,434 and $2,791,279 respectively (2010 – $7,599,318 and $2,946,279 respectively) have not been included in the above table.

The interest rate sensitivity analysis below has been determined based on the exposure to interest rate fluctuations for both interest rate sensitive assets and liabilities at the statements of financial position date. Interest rate sensitive assets at December 31, 2011 consist of cash on deposit in CCITF, accrued interest receivable and loans which have been swapped from fixed to floating. Interest rate sensitive liabilities at December 31, 2011 consist of accrued interest payable and debt. Debt includes debt which has been swapped from fixed to floating, debt due within one year and floating rate debt.

The potential impact of an immediate and sustained increase of 50 basis points in interest rates with all other variables held constant throughout the year would have the following impact on interest income and interest expense from interest rate sensitive assets and liabilities respectively:

	2011				2010			
Assets	$ 9,291,607	times	0.5%	= $ 46,458	$ 7,771,347	times	0.5%	= $ 38,857
Liabilities	$ 9,042,506	times	0.5%	= $ 45,213	$ 7,555,405	times	0.5%	= $ 37,777
Net interest income				$ 1,245				$ 1,080

(c) Liquidity Risk

Liquidity risk is the risk that ACFA will not have sufficient cash to meet its obligations as they become due while meeting the loan requirements of local authorities.

ACFA manages its liquidity risk by monitoring its cash flows on a daily basis. Surplus funds are invested in short-term investments or the Consolidated Cash Investment Trust Fund. To the extent there are differences in maturities between the collection of principal and interest from loans, and repayment of principal and interest on debt, ACFA manages this by raising funds, when required, in the Canadian market. Access to this market is enhanced as ACFA is an agent of, and its debt is unconditionally guaranteed by, the Province of Alberta.

The maturities of ACFA's contractual cash flows from financial liabilities at December 31, 2011 are as follows:

		2012	2013	2014	2015 and beyond
Liabilities:					
Accounts payable		$ 733	$ -	$ -	$ -
Debt, contractual repayments of principal	(a)	2,640,000	2,905,000	656,800	4,597,146
Debt, contractual payments of interest	(b)	281,393	182,578	167,129	997,214
Derivatives in unfavourable position, net	(b)	237,678	232,268	221,545	2,082,036
Commitments		177,945	27	-	-
Total		$ 3,337,749	$ 3,319,873	$ 1,045,474	$ 7,676,396

(a) Cash flows for debt contractual repayment of principal are determined with the assumption that the step-up notes will not be redeemed until maturity.

(b) Where the amount of interest payable is not fixed, as is the case for issued debt that has a variable interest rate or the floating leg of an interest rate swap, the amounts included in the above table have been determined by reference to the conditions existing at the date of the statements of financial position.

Interest and principal payments as well as other payments for derivative financial instruments are relevant for the presentation of the maturities of the cash flow. Future cash flows are not discounted.

In conjunction with the liquidity analysis provided above for the financial liabilities, management has determined that the following liquidity analysis of financial assets is necessary to evaluate the nature and extent of the liquidity risk:

		2012	2013	2014	2015 and beyond
Assets:					
Loans, contractual collection of principal	(a)	$ 538,892	$ 550,787	$ 761,310	$ 8,990,663
Loans, contractual collection of interest	(a)	489,504	461,838	434,763	3,673,152
Derivatives in favourable position, net	(a)	85,557	86,057	86,215	538,274
Total		$ 1,113,953	$ 1,098,682	$ 1,282,288	$ 13,202,089

(a) The amounts presented represent the contractual collection of principal and interest and assumes no prepayments or no credit default on behalf of the counterparties or the local authorities.

Note 11 – Commitments

(a) Lease

ACFA has obligations under an operating lease for the rental of premises, expiring in July 2013, at an annual minimum of $54 for 2012 and $27 for 2013.

(b) Loan

In the normal course of business, ACFA enters into loan commitments to provide customers with sources of credit. Commitments to extend credit represent undertakings to make credit available in the form of loans for specific amounts and maturities, subject to certain conditions, and are recently authorized loans not yet drawn down.

These loan arrangements are subject to ACFA's normal credit standards and collateral is obtained where appropriate. The loan amounts represent the maximum credit risk exposure to ACFA should the loans be fully drawn. The loan commitments represent future cash requirements and as at December 31st were:

	December 31, 2011	December 31, 2010	January 1, 2010
Loan commitments	$ 177,891	$ 222,000	$ 27,025

Note 12 – Budget

The 2011 budget was approved by the Board of Directors on December 9, 2010. Budget amounts for 2011 were prepared on an amortized cost basis, except that commission fees were expensed. Fair value changes were not budgeted.

Note 13 – Approval of Financial Statements

The financial statements were approved by the Board of Directors on March 8, 2012.

SCHEDULE 1 – DEBT

as at December 31, 2011
(in thousands of dollars)

Maturity Date	First Extendible Date	Interest Rate	Contractual Principal Outstanding	
Canada Pension Plan Investment Fund/CPP Investment Board:				
Oct 01, 2020		6.2800	$ 222,367	(c) Fixed
Jun 01, 2022		6.0600	100,000	(c) Fixed
Apr 05, 2023		5.8900	50,000	(c) Fixed
Dec 01, 2023		5.5000	150,000	(c) Fixed
Dec 03, 2024		5.1800	78,000	(c) Fixed
Nov 03, 2026		4.4900	200,000	(c) Fixed
Nov 03, 2031		4.5000	125,396	(c) Fixed
Nov 02, 2032		4.8300	190,383	(c) Fixed
Total			1,116,146	
Public:				
Jan 09, 2012		0.9400	70,000	(d) Short-term
Jan 18, 2012		0.9400	120,000	(d) Short-term
Feb 07, 2012		0.9600	105,000	(d) Short-term
Feb 13, 2012		0.9500	65,000	(d) Short-term
Mar 15, 2012		0.9300	100,000	(d) Short-term
Mar 06, 2012		0.9300	200,000	(d) Short-term
Mar 07, 2012		0.9300	210,000	(d) Short-term
Mar 15, 2012		0.9278	270,000	(d) Short-term
Jun 01, 2012		5.8500	500,000	(c) Fixed
Jun 15, 2012		1.6007	550,000	(b) Floating
Oct 09, 2012		1.3507	450,000	(b) Floating
Feb 05, 2013		1.3507	625,000	(b) Floating
Apr 26, 2013		1.3507	500,000	(b) Floating
Oct 01, 2013		1.3907	520,000	(b) Floating
Dec 02, 2013		5.0000	300,000	(c) Fixed
Dec 15, 2013		1.2807	960,000	(b) Floating
Jul 02, 2014		3.0940	106,500	(c) Fixed
Jul 02, 2014		1.6707	550,000	(b) Floating
Mar 23, 2015	Mar 23, 2012 *	2.1000	26,000	(a) Step-up
Jun 01, 2015		4.9000	200,000	(c) Fixed
Jun 15, 2015		3.0500	600,000	(c) Fixed
Dec 21, 2015	Dec 21, 2012	2.0000	10,000	(a) Step-up
Mar 24, 2016	Mar 24, 2012 *	2.0500	10,000	(a) Step-up
May 27, 2016		1.3907	900,000	(b) Floating
Jun 15, 2016		4.3500	600,000	(c) Fixed

SCHEDULE 1 – DEBT

(continued)

Maturity Date	First Extendible Date	Interest Rate	Contractual Principal Outstanding	
Jun 15, 2017		4.650%	700,000	(c) Fixed
Jun 01, 2018		5.150%	100,000	(c) Fixed
Apr 28, 2023	Apr 28, 2014	3.000%	15,000	(a) Step-up
Dec 01, 2023		5.100%	20,000	(c) Fixed
Dec 15, 2025		4.450%	300,000	(c) Fixed
Total			9,682,500	
Total contractual principal outstanding			10,798,646	
Less unamortized commission fees and net discounts			12,176	
Total debt December 31, 2011			$ 10,786,470	
Total debt December 31, 2010, including unamortized commission fees and net discounts			$ 9,485,085	
Total debt January 1, 2010, including unamortized commission fees and net discounts			$ 7,889,102	

(a) These are step-up notes extendible at ACFA's option which pay interest periodically at a predetermined rate with principal paid on termination.

(b) These are floating rate notes which pay interest quarterly at the Canadian Deposit Offered Rate (CDOR) plus predetermined spreads with principal paid on termination. The interest rates provided are based on the CDOR as of the statements of financial position date plus the contractual predetermined spread.

(c) Fixed rate debt.

(d) Short-term notes.

(*) Subsequent to year end, these extendible step-up notes and related derivatives were called on the first extendible date at the contractual principal amounts.

For more information, visit our website or contact:

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